



Oversight and Technical Assistance

Current Environment Assessment

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Functions

The Oversight and Technical Assistance functions are performed at both headquarters and regional facilities within the Financial Partners Channel (FPC); however, this assessment primarily focuses on the activities within the following functions performed at the regional offices:

- Plan and execute program reviews of lenders, guaranty agencies, secondary markets, and servicers
- Provide technical assistance to these same partners

The regional Oversight and Technical Assistance processes:

- Ensure partner compliance with Title IV program rules and requirements from both an eligibility and operational stand point
- Assist partners to better meet program requirements by providing training on proper billing procedures and other operational procedures necessary to maintain program eligibility

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High Level Process Flows and Requirements

The purpose of this section is to provide an overall picture of the processes that create the Oversight and Technical Assistance functions in the FPC. This section includes the Oversight and Technical Assistance process flows and high level requirements.

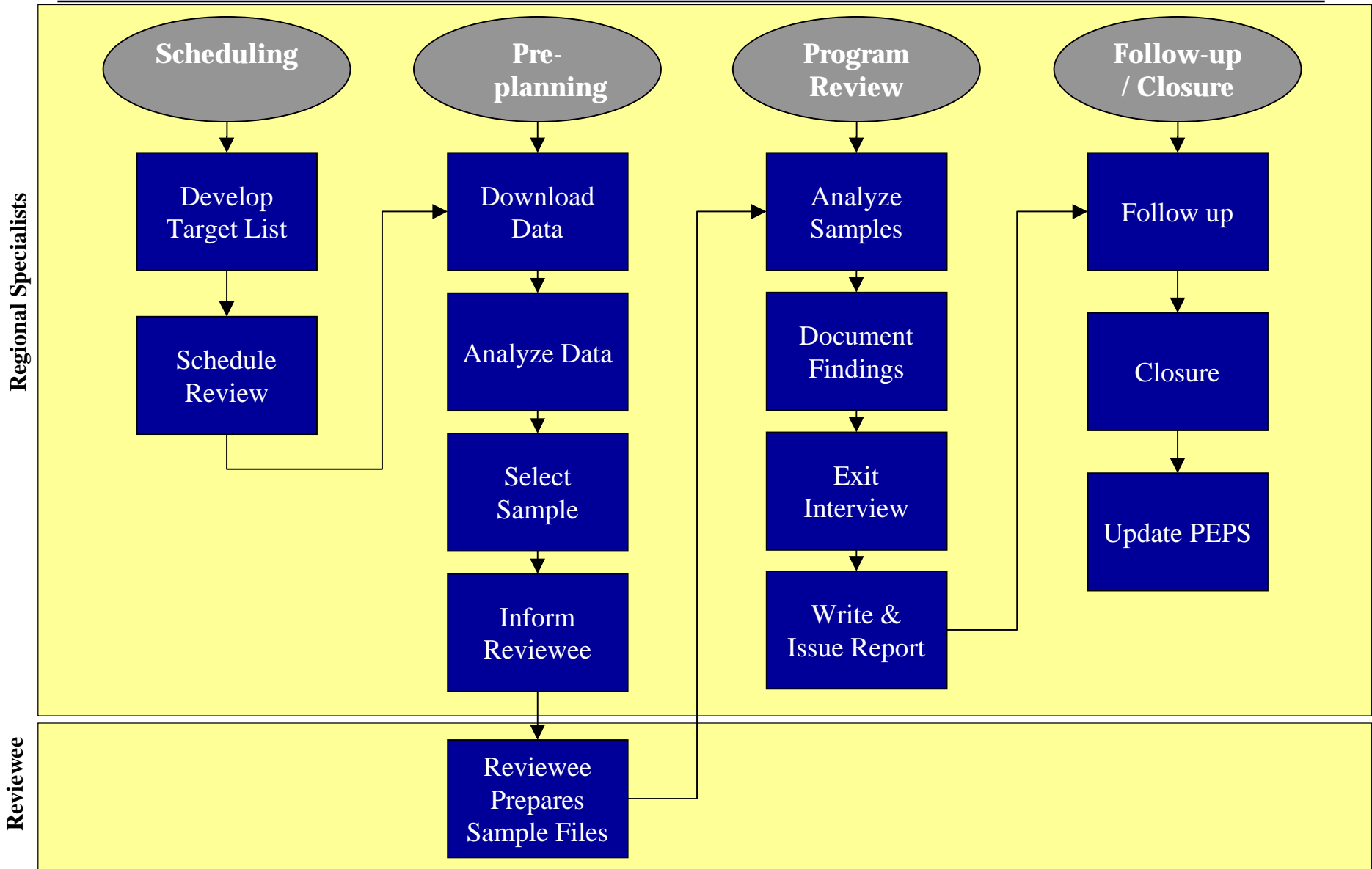
The process flows provide a high level view of the tasks that support the Oversight and Technical Assistance functions. They also demonstrate the general sequence of events and outputs of those processes.

The high level requirements describe the main functions of each process step and business rules that must be followed.

The process flows and high level requirements outlined in the following pages apply to the major types of reviews conducted by the Oversight and Technical Assistance group (e.g., lender reviews, servicer reviews, guaranty agency reviews, desk reviews, secondary market reviews, etc.) unless stated otherwise.

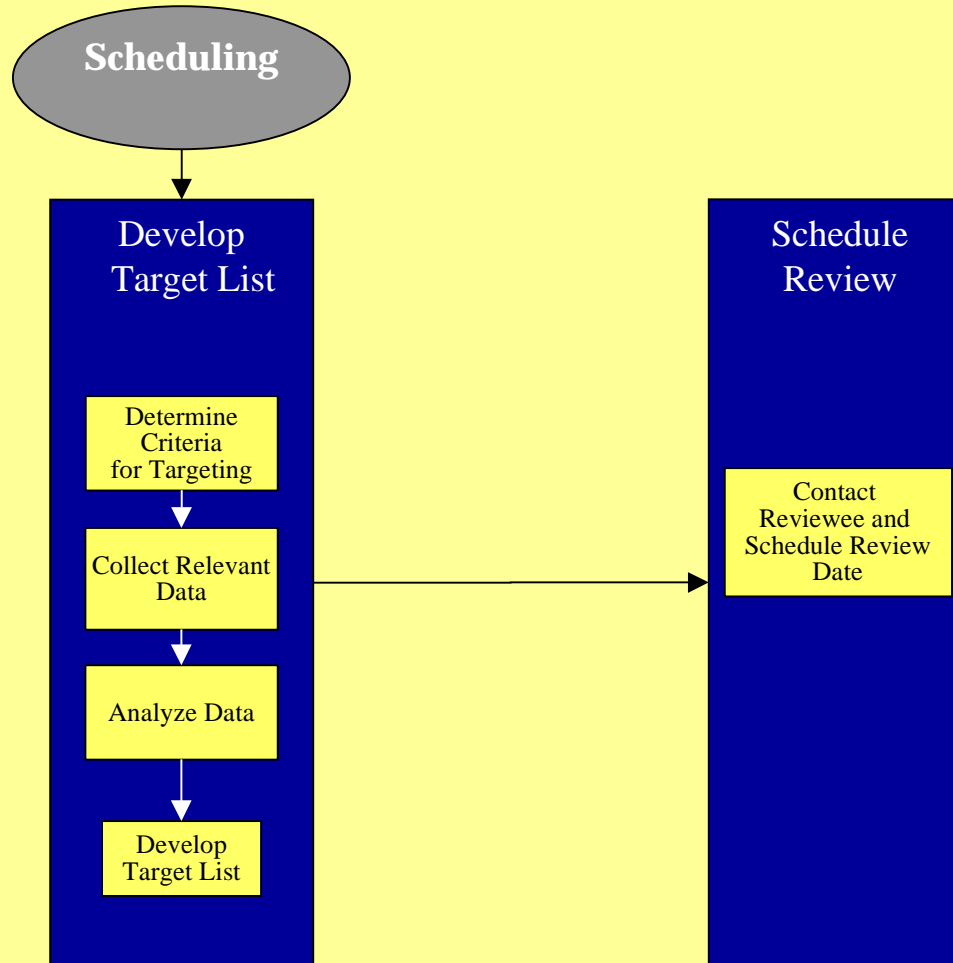
In addition to reviews conducted by the regional staff, specialists in the FPC headquarters review third-party audits commissioned by the federal Office of the Investigator General (OIG). These audits initially go through a clearinghouse, after which they are routed to FPC headquarters for review. This process does not appear on the following pages, as this Current Environment Assessment is intended to focus primarily on regional oversight/technical assistance activities.

High Level Process Flow - Oversight



Detailed Process Flow - Scheduling

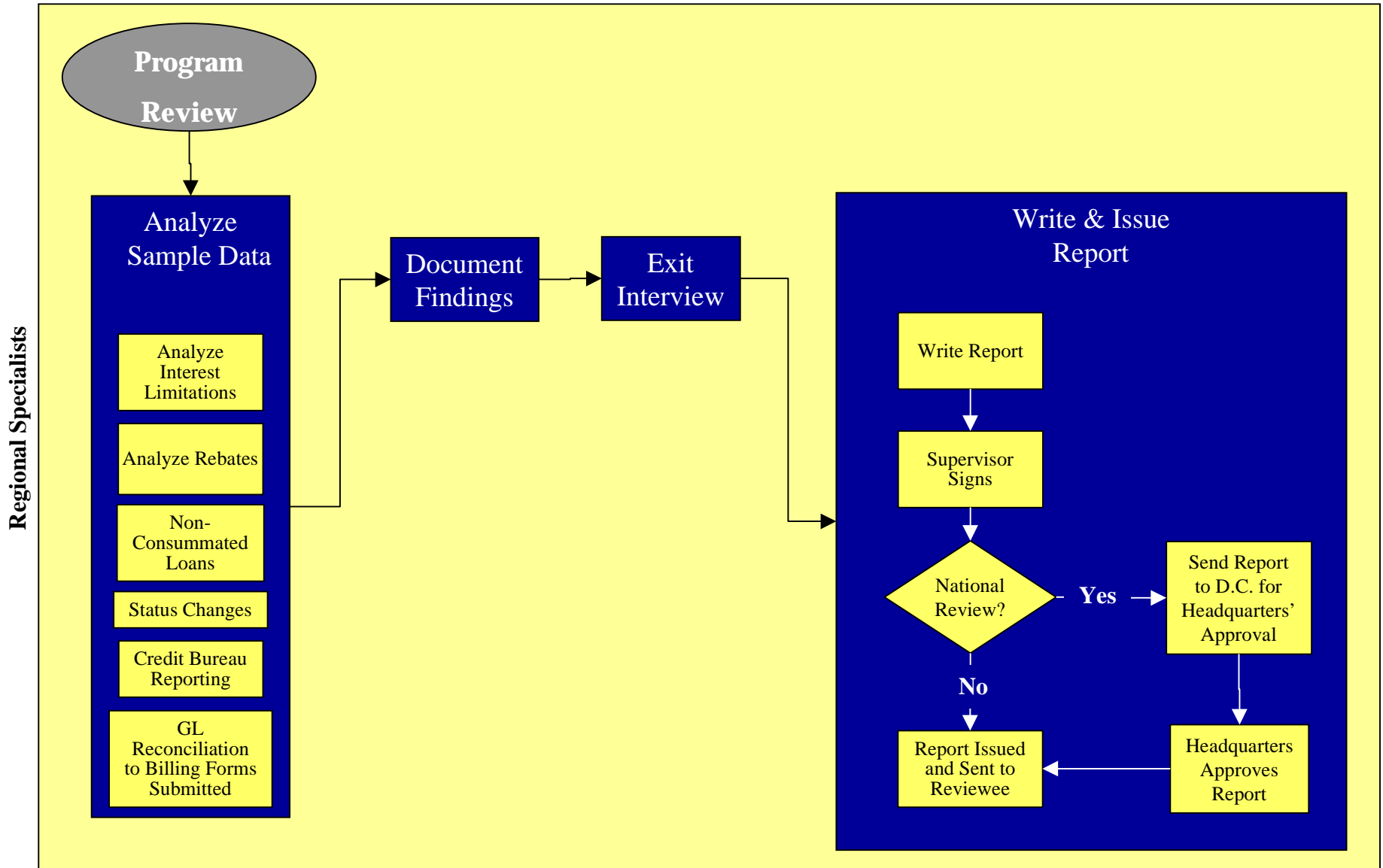
Regional Specialists



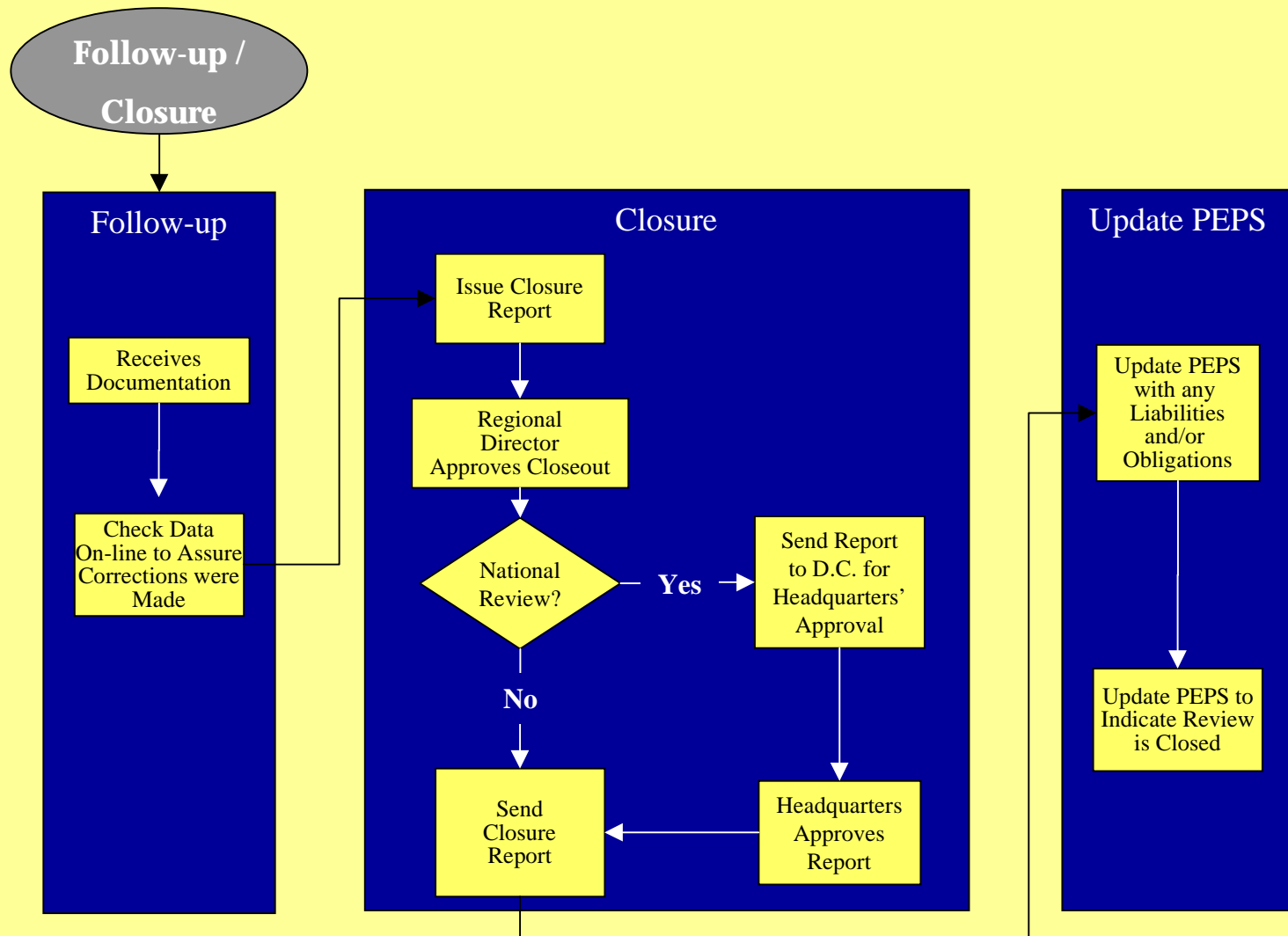
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Detailed Process Flow - Program Review



High Level Process Flow - Follow-up & Closure



Regional Specialists

High Level Requirements - Oversight

Scheduling

- This process analyzes historical data to target and schedule Financial Partner Channel program reviews for lenders, guaranty agencies, and servicers who participate in Title IV programs.
 - The data analyzed varies across regions and review periods; however, data commonly considered includes:
 - Delinquency/default rates
 - Size of portfolio
 - Number of reasonability edits
 - Complaints on file
 - Time of last review
 - Outcomes of analyses already conducted (e.g., prior reviews)
 - Guaranty agency findings (lender only)
 - Active disbursements (in \$) vs. portfolio size (in \$)
 - Portfolio changes (e.g., substantial changes in loan volumes)
 - CPA audits (lender only)
 - Frequency of originations (lender only)
 - Number of years in Title IV program
 - Mergers or changes in ownership
 - Since the data analyzed is not always consistent for every region or review period the data source and data collection method may be different. Similarly, the methods and tools used in analyzing the data is different across regions and review periods. However, common data sources include:
 - FFEL (E-Systems)
 - NSLDS
 - PEPS
 - Headquarters
 - External and internal reports/publications
- Common analysis tools include:
 - IDEA
 - Excel

High Level Requirements - Oversight

Pre-planning

- This process downloads data and conducts a preliminary analysis to determine the focal points/scope of the review.
 - The data sources and data elements analyzed vary across regions; however, all regions download raw data from:
 - FFEL (E-Systems) -Derive billing forms (799 for lenders, 1130 and 1189 for GAs)
 - Headquarters - For GA forms 1130 and 1189, usually request hard copy from SFA headquarters in Washington, D.C.. Regional offices do not have direct access to GA data on-line and process to obtain electronic copies is cumbersome.
 - NSLDS - Check student and loan status (lender reviews only)
 - PEPS - History of past reviews
 - The primary tools used by all regions to analyze the raw data are:
 - IDEA (an audit software)
 - EXCEL
 - The analyses conducted also vary by region, but most often include:
 - Rebate analysis - Determine total amount of interest rebates due to SFA for those loans that fall under 8/10 category
 - Billing forms scrutiny - Spot any suspicious areas (e.g., soft or hard edits), identify risk factors, and identify any mistakes on forms
 - Document comparison - Check that student loan data matches loan status codes
 - Spot trends, outliers, and spikes in key factors (e.g., Delinquency rates)
 - The scope of the review is determined based on any noteworthy trends, identified risk factors, and other findings.
- This process establishes initial contact with the reviewee to request sample documents for time periods relevant to the review. The Regional Specialist requests (from the reviewee) files fitting a certain profile based on the review scope. The specialist may identify sample data by querying various databases and will ask the reviewee only to verify the relevance of the data.
 - For desk reviews, the reviewee will send the sample data to the Regional Specialist.
 - For on-site reviews, the reviewee will retrieve the files and either send it to the Regional Specialist or hold it in anticipation of the specialist's arrival.
- This process issues a "Scheduling Letter" (a.k.a. "Welcome Letter) and conducts (either on the phone or on-site) an "Entrance Interview" to inform the reviewee on the review process and the items being reviewed. It also allows the Regional Specialist to gather more current information.

High Level Requirements - Oversight

Program Review

- This process involves an in-depth analysis of the sample data provided by the reviewee, producing a written report that summarizes the findings, and notifying the reviewee of steps they need to make to correct the findings.
 - While the analyses performed depend on the scope of the review items typically analyzed include:
 - Interest limitations (for lender and servicer reviews)
 - Rebate analysis (for lender and servicer reviews)
 - Non-consummated loans analysis (for lender, servicer, and guaranty agency reviews)
 - Status changes (for lender and servicer reviews)
 - Credit bureau reporting (for lender and servicer reviews)
 - General ledger reconciliation to billing forms submitted (for lender, servicer, and guaranty agency reviews)
 - Data from billing forms 1130, 1189 (for guaranty agencies) and form 799 (for lenders)
 - There are three types of reviews. While all follow the same process steps there are differences in the data elements that are analyzed. The three types of reviews are:
 - Desk Review (usually only review suspicious areas of lenders with small portfolios, may involve technical assistance)
 - On-site Review (extensive reviews of entire general ledger, bills, etc. and usually involves some technical assistance)
 - Limited Scope Review (usually less extensive than on-site reviews and focuses primarily, but not exclusively, on high-risk areas)
- This process involves documenting the findings.
- This process also involves an exit interview in which the Regional Specialist will summarize the review findings for the reviewee and discuss next steps. The specialist and reviewee may exchange questions at this time (as well as any other point in the process), which may lead to technical assistance.
- Once the report is written it must be reviewed by a supervisor. If the review is national in scope the report must also be reviewed by Headquarters, in D.C.. Once reviewed, the report is formally issued to the reviewee. The reviewee has 30-45 days to respond to the report.
- Regional Specialists may request a hold status on program participation during the review process, if necessary.
- The review process must be consistent with Coded Federal Regulations.

High Level Requirements - Oversight

Follow-up / Closure

- The purpose of this process is for the Regional Specialist to validate that the reviewee has taken corrective actions on the review findings. The validation may involve verifying information via copies of paper forms received from the reviewee and/or on-line verification (on FFEL and other systems) that the payables/receivables financial transaction between SFA and the financial partner has occurred.
- This process brings closure to the review by formally issuing a written document (i.e., the Closure Letter) to the reviewee. The Closure Letter is issued once the Regional Director reviews documentation to verify that the review has been closed.
- This process includes updating the PEPS system. The Regional Specialist typically enters into PEPS the review findings, an indication of whether or not the review was successfully closed, and an indication of any outstanding SFA financial obligations.

High Level Process Flow - Technical Assistance

Regional Specialists

Respond to
Inquiries

Development
Projects

GA & Lender
Training

High Level Requirements - Technical Assistance

Respond to Inquiries

- Answer ad-hoc requests from all partners (e.g., guaranty agencies and lenders)
- Offer assistance in response to review findings
- Explain and interpret regulations for financial partners
- Refer partner inquiries to the right resources, as needed
- Provide technical assistance and quality assurance training and tools

Development Projects

- Provide technical input into various SFA projects (e.g., Form2000, PEPS, NSLDS)
- Provide regional perspective to these projects

GA/Lender Training

- Provide technology training on tools and systems that are accessed and utilized by financial partners
- Provide training for financial partners on the content of Title IV programs, including program regulations, offerings, and aid levels
 - Training sessions for lenders can be performed jointly with guaranty agency staff
- Coordinate and exchange information with external partners to improve service delivery to students
- Disseminate information regarding issues that impact the financial aid industry (e.g., conferences, presentations, etc.)

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System Interfaces

The purpose of this section is to graphically depict the systems with which the Regional Specialist must interface during a typical review.

The Regional Specialist interacts with FFEL, NSLDS, and PEPS systems to access data that is relevant to their reviews. The specialist has direct electronic access to the data on NSLDS and PEPS and to lender data on FFEL. However, for guaranty agency data, the specialist must either request a hard copy from FFEL (in Greenville, TX) or go through a cumbersome process to acquire an electronic copy from Headquarters (in Washington, DC).

Typically the FFEL data (and sometimes NSLDS data) is downloaded into a software program to aid in data analysis (usually IDEA or Monarch audit software or Excel).

System Interfaces

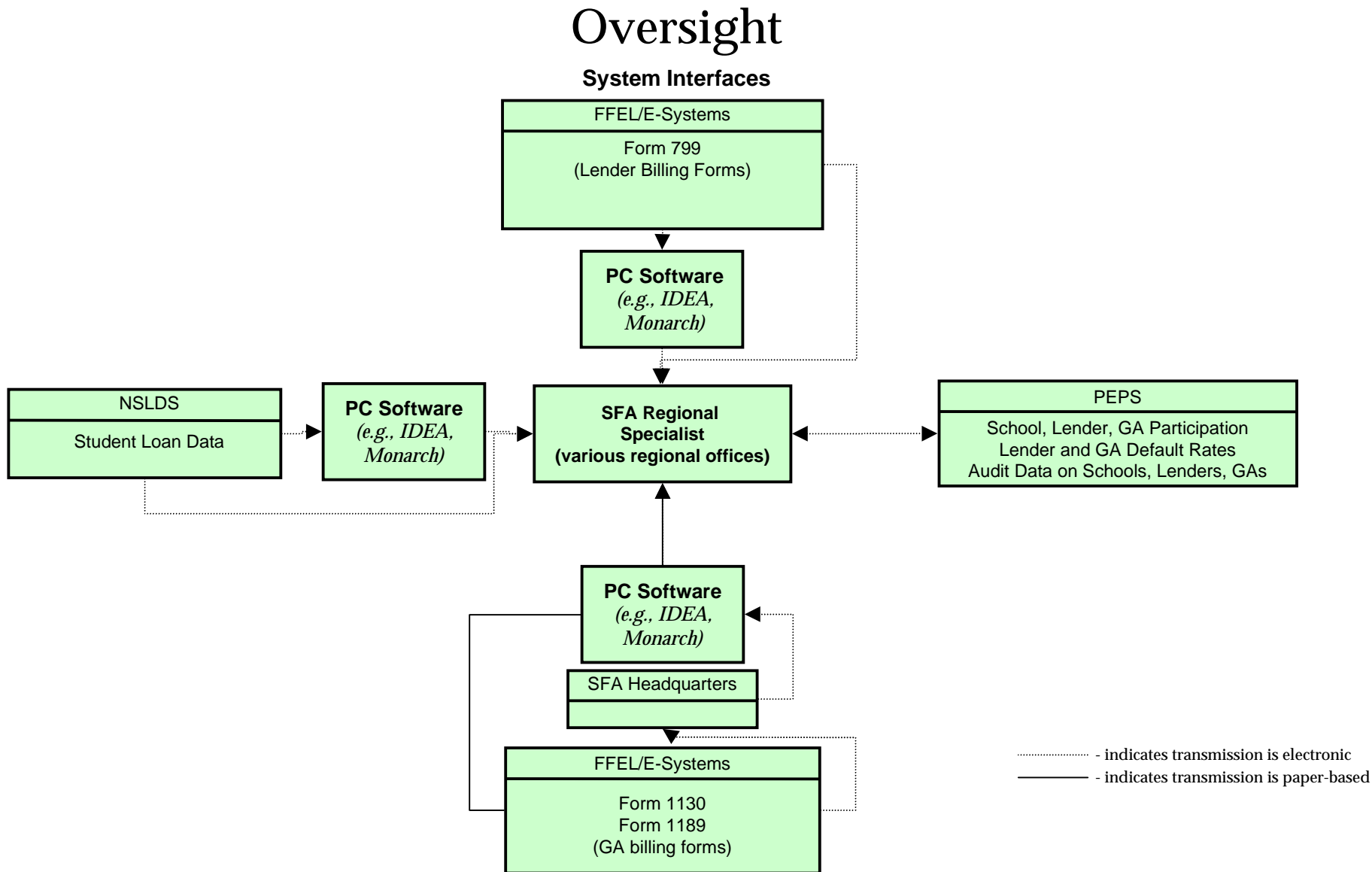


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High Level Technical Flow & Architecture

The purpose of the technical flow is to graphically depict the flow of data from various sources to the Regional Specialist during a typical review.

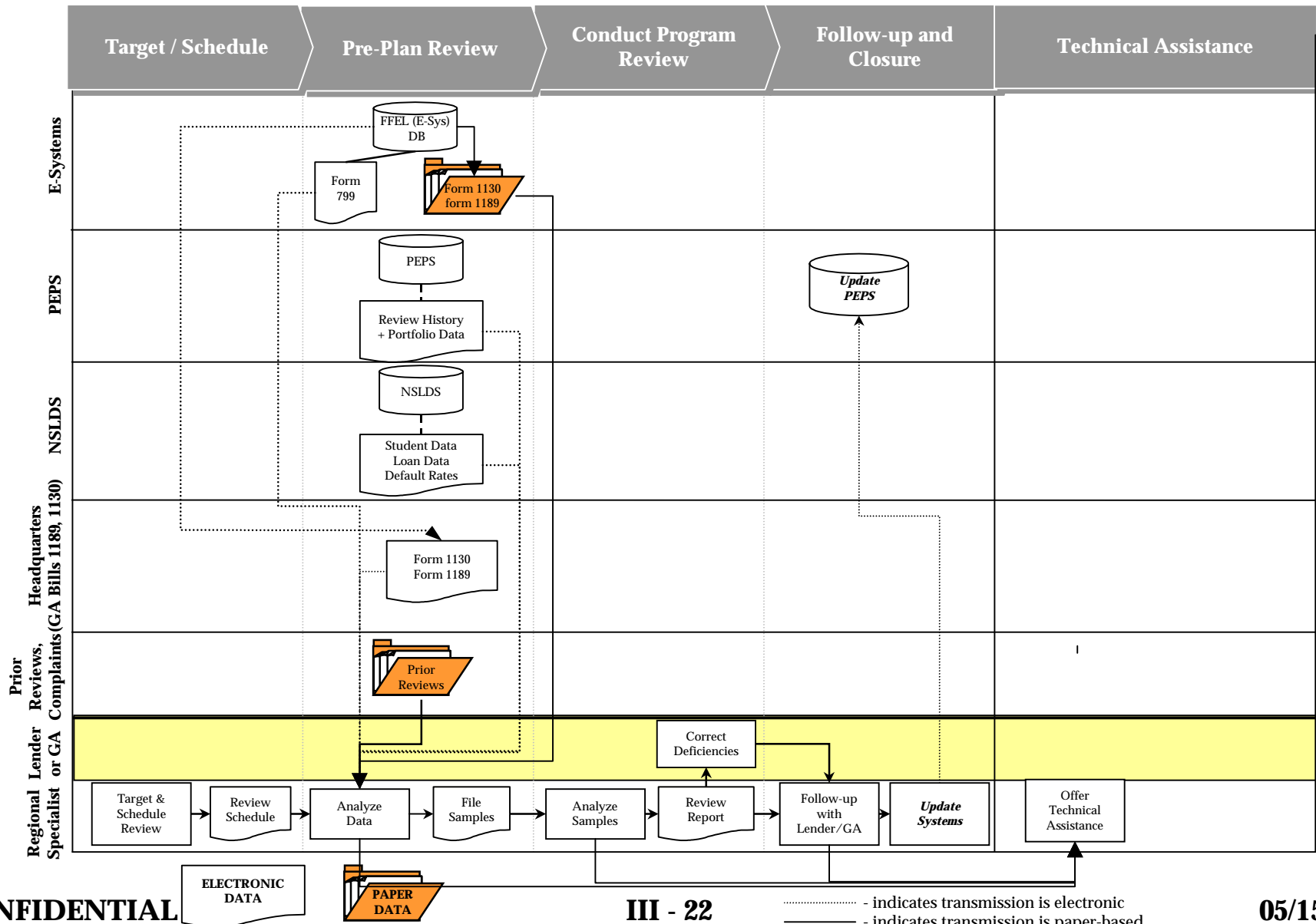
The specialist will extract data from FFEL, NSLDS, and PEPS systems to access prior review results and other data relevant to the review. Guaranty agency data is received in paper form directly from FFEL personnel in Greenville, TX.

Typically the FFEL data (and sometimes NSLDS data) is downloaded into a software program on the specialist's desk top, where it is analyzed.

Once the review is complete, the specialist will update the PEPS system with review results.

The purpose of the technical architecture slide is to graphically depict how the software and hardware interact to provide the Regional Specialist with the data they need to complete the review.

High Level Technical Flow



High Level Technical Architecture

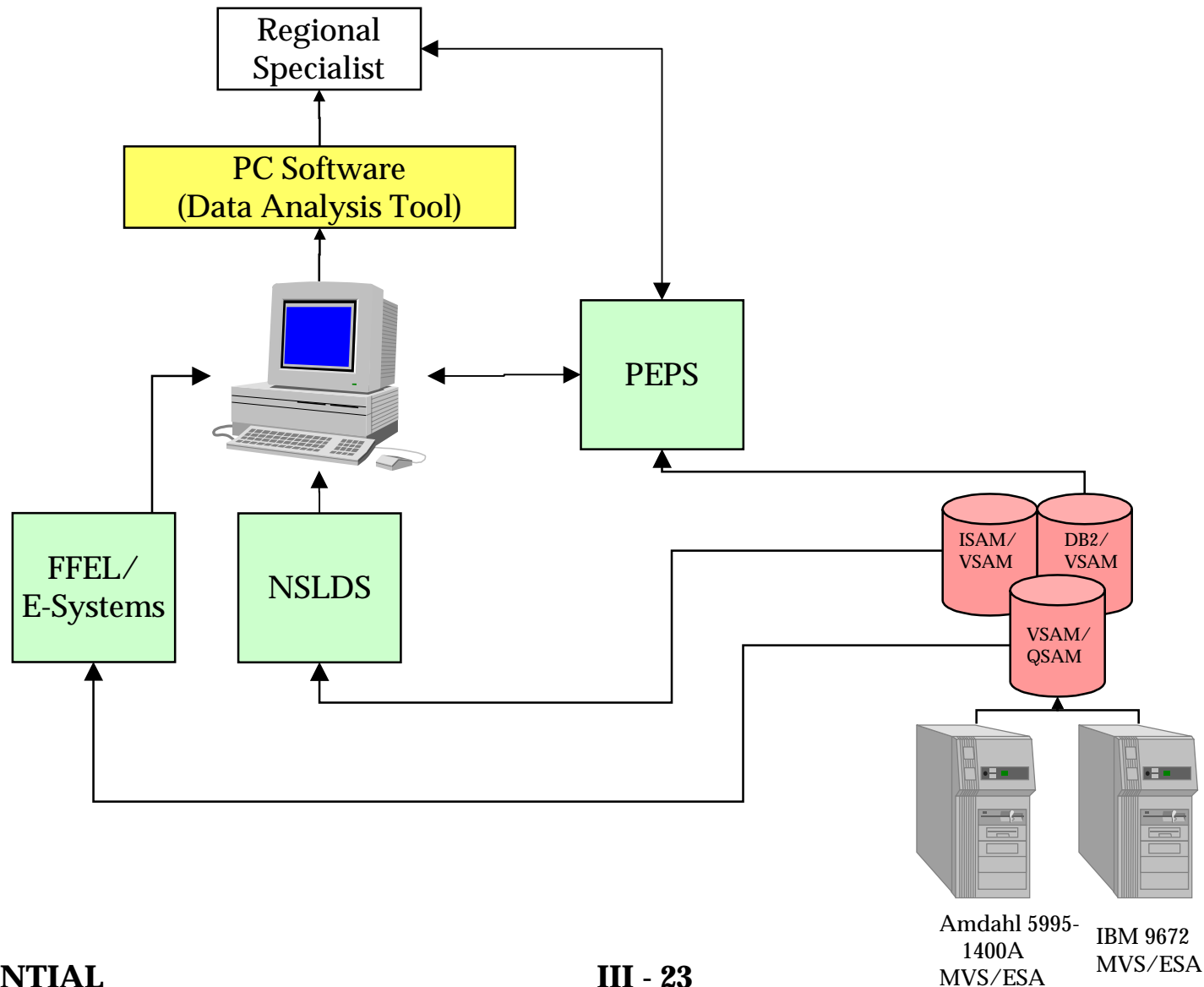


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Process Metrics

This purpose of this section is to establish metrics that will provide a basis for comparison between pre-reengineering and post-reengineering processes.

The metrics on the following pages (e.g., expenses, personnel costs) are based on regional data only.

These metrics are based on the FPC Fiscal Year (FY) which begins on October 1 and ends on September 30. FY2000 calculations are based on information available from October 1, 1999 through March 31, 2000.

These metrics are subject to change as the reengineering team identifies new metrics and details upon further analysis of Oversight and Technical Assistance processes.

Process Metrics

Key Volume and Cost Figures for Regional Review Activities

Metric	1998	1999	2000
Number of Reviews Conducted	209	214	36
• Desk	4	-	-
• Lender	184	212	35
• Guaranty Agency	2	-	1
• Secondary Market	11	1	-
• Servicer	5	1	-
• NSLDS	2	-	-
Total Expenses ⁽¹⁾	\$385,729	\$310,894	\$165,987
Total Key Personnel Costs ⁽²⁾	\$2,272,000	\$2,320,000	\$1,184,000
Total Funds Collected (net)	\$55,765,801	\$3,594,352	\$657,344
Total Number of Specialists	32	32	32
Total Number of FTEs (Specialists + Support Staff)	36	37	37

(1) Total Expenses were calculated by adding the costs for following line items: Travel, Local Travel, Mileage Allowance, Commercial Car Rental, ADP Computer Equipment, Total Lender Searches, and Total Data Downloads.

(2) The following assumptions were made in calculating Total Key Personnel Costs:

- \$74,000 total annual compensation per Regional Specialist (including benefits)
- 32 Regional Specialists each year (includes staff for North, South, East, West regions, and excludes Headquarters staff also excludes support personnel costs)
- A \$1,500 difference in compensation per Regional Specialist per year is assumed between year 2000-1999 salaries, and 1999 and 1998 salaries, respectively (e.g., Each specialist's compensation for 1999 was \$1,500 less than it was in year 2000; Each specialist's compensation for 1998 was \$1,500 less than it was in year 1999.)

Process Metrics

Review Volume by Region and Type

REGION	1998 ⁽¹⁾	1999	2000	TOTALS
Eastern Region	122	101	22	245
• Desk	-	-	-	-
• Lender	117	101	22	240
• Guaranty Agency	-	-	-	-
• Secondary Market	2	-	-	2
• Servicer	1	-	-	1
• NSLDS	2	-	-	2
Northern Region	24	17	5	46
• Desk	-	-	-	-
• Lender	20	17	4	41
• Guaranty Agency	-	-	1	1
• Secondary Market	-	-	-	-
• Servicer	4	-	-	4
• NSLDS	-	-	-	-
Southern Region	14	30	5	49
• Desk	-	-	-	-
• Lender	12	29	5	46
• Guaranty Agency	1	-	-	1
• Secondary Market	-	1	-	1
• Servicer	1	-	-	1
• NSLDS	-	-	-	-
Western Region	45	66	4	115
• Desk	-	-	-	-
• Lender	35	65	4	104
• Guaranty Agency	1	-	-	1
• Secondary Market	9	-	-	9
• Servicer	-	1	-	1
• NSLDS	-	-	-	-

(1) 1998 total# of reviews on this page differs from that on previous page. This difference is attributed to 4 Desk Reviews that were conducted in 1998 by Headquarters, which is counted in the previous page, but not on this one.

Process Metrics

Total Unit Costs per Review Type

Type of Review	Average Time ⁽¹⁾	FTEs ⁽²⁾	Personnel Cost per Review ⁽³⁾	Expenses per Review ⁽⁴⁾	Total Unit Cost per Review
Desk	145 hrs.	1	\$5,159	\$93	\$5,252
Lender On-site • Small lender • Large lender	175 hrs. 335 hrs.	1 5	\$6,226 \$11,918	\$1,439 \$7,365	\$7,665 \$19,283
Guaranty Agency • On-site • Technical assistance	434 hrs. 28 hrs.	5 2	\$15,440 \$996	\$7,570 \$2,666	\$23,011 \$3,663
Secondary Market On-site	335 hrs.	5	\$11,918	\$7,340	\$19,258
Servicer On-site	335 hrs.	5	\$11,918	\$7,340	\$19,258
NSLDS On-site	84 hrs.	3	\$2,988	\$4,064	\$7,053

(1) Represents the total time required to complete all steps of the review, assuming 1 FTE for the scheduling, pre-planning, report-writing, follow-up, and closure activities.

(2) Represents the total number of FTEs required during the actual **review** stage, and does not count the number of FTEs required for scheduling, pre-planning, report writing, follow-up, and closure activities.

(3) Assumes \$35.58 hourly compensation per personnel, based on standard \$74,000 total compensation per specialist per year. Figures calculated based on percent distribution by number of hours required to complete each type of review.

(4) Based on total expense figure calculated on page III-26, averaged over years 1998-2000. Figures were calculated based on fixed costs for Lender Search and Data downloads, variable costs for Computer Equipment (percent distribution by number of hours and Regional Specialists spent on review), and variable costs for Travel, Mileage, and Car Rental (percent distribution based on number of specialists per type of review).

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Comparative Assessment

Objectives

This section provides a summary comparison of best practices to current Financial Partners Channel practices and then identifies reengineering opportunities for improvements. The ranking provided indicates the degree to which current FPC practices are consistent with best practices.

- = Current FPC practices are consistent with the best practice standard with opportunities for enhancements to fully utilize the capabilities
- ◐ = Current FPC practices partially meet the best practice standard with opportunities for improvement in the area
- = Current FPC practices are not consistent with best practice standard with major opportunities for improvement in the area

Summary

The function of oversight and technical assistance is best served as a coordinated effort across the regional offices to:

- Increase the consistency of selecting and reviewing performance measures across lenders and guaranty agencies for the Department
- Reduce oversight costs per unit (review by type)
- Improve financial partner communication and relations by providing consistent information and requirements over time

Comparative Assessment

Best Practices	Current FP Practices	Ranking	Opportunity
Performance measures have predictive power and reflect cross-functional processes within a company.	Currently reviews are not tracked by type of review, size of lender portfolio, region, etc. to establish trend reporting within and across regions.	◐	Develop review schedules to focus efforts on large impact and on exception processing. Develop a review tracking system to establish baseline for trend analysis.
Performance is measured by both financial and non-financial measures including 'quality for customers' and speed of response.	Currently, performance is measured only by financial criteria.	○	Include in on-site reviews non-financial measures such as customer service, response time for new loans, etc. as well as financial measures.
Performance measures are consistently and accurately measured across samples and over time.	Currently, lenders and GA's are reviewed using different reports (e.g., cohort default vs. absolute default rates).	◐	Develop standard report review criteria and automate routine downloads and reports used in reviews, e.g., PEPS, NSLDS, FFEL.

- Key:*
- *Current FPC practices correspond with best practices*
 - ◐ *Current FPC practices partially follow best practices*
 - *Current FPC practices do not correspond with best practices*

Comparative Assessment

Best Practices	Current FP Practices	Ranking	Opportunity
Performance measures are established for each criteria.	Currently, each Regional Specialist determines the level of trend analysis and type of data to review.	●	Develop standards for acceptable norms and deviations.
Performance measures are established for each criteria and exceptions are investigated to determine causes.	Currently, each Regional Specialist determines the type of exception data to review based, in part, on availability of data.	◐	Develop ad hoc reporting tool for further analysis of trends and questionable deviations, including delinquencies, default rates, error rates, number of complaints, etc.
Organizational information /data bases should be accessible to organizational members who are responsible for the actions.	Currently information is provided to lenders and GA's regarding review-specific procedures and results, except where specific questions are asked.	◑	Increase dissemination and coordination of information to lenders and guaranty agencies, e.g., link ED web sites; and, integrate database to record and track queries and problems by type, source, and resolution.

Key:

- *Current FPC practices correspond with best practices*
- ◐ *Current FPC practices partially follow best practices*
- *Current FPC practices do not correspond with best practices*

Comparative Assessment

Best Practices	Current FP Practices	Ranking	Opportunity
Performance monitoring should be well defined and focus on performance requirements, task criticality, task cost/criticality ratio, and available resources (e.g, 100% inspection, random sampling, customer input).	Contract performance monitoring does not currently exist.	○	Establish an enterprise level QA to consistently monitor contractor performance in coordination with the oversight performance review function.
Financial management functions are considered in measuring performance including investment, transaction, and cash management.	No standardized methods for selecting lenders/GA's for review per period across regions.	○	Develop standard review criteria to emphasize return on investment, e.g, top 100 lenders.
Performance measures are used effectively to communicate strategy and promote a learning environment.	Currently, review results are used to implement GA and lender-specific remedies. Results are not tracked to identify areas for training or interpretation.	○	Develop coordinated reviews between GA's and Oversight group and [review] results based training for lenders and servicers.

Key:

- *Current FPC practices correspond with best practices*
- ◐ *Current FPC practices partially follow best practices*
- *Current FPC practices do not correspond with best practices*